

Q & A

Q. *What will the return for the Stable Return Fund be for this year?*

A. Based on current reinvestment rates, the Stable Return Fund is expected to have a return between 5.5 and 6 percent.

Q. *I heard there were a lot of changes to the Deferred Compensation Plan due to federal legislation. Where can I find out more information?*

A. The third-quarter newsletter of 2001 was dedicated to all of the changes in the Plan due to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). That newsletter and others can be viewed at your convenience on the deferred compensation home page at www.state.il.us/cms/employee/defcom.

Q. *I am currently deferring into the plan. Does this affect my tax return?*

A. No, although, the W-2 statement will reflect your contributions to the plan. The lower right-hand corner of the W-2 will be marked with an "X" to show you contributed during 2001; the amount of your deferral will be indicated in box 13 with a "G" coding. Since all deferrals, gains, and losses are not subject to federal taxes until distribution, you can not declare those or the fees assessed to your account.

What's Inside...

New Spokesman

The Deferred Compensation Division will begin a new campaign this year intended to further increase participation. As one of the initiatives, our new spokesman, Foreman 457, was developed to complement the current enrollment booklet, Building for Your Financial Future. Foreman 457 will be featured in a postcard and poster series that will begin in January and extend to the fall of this year. As part of that campaign, the newsletter has been redesigned to reflect this change.

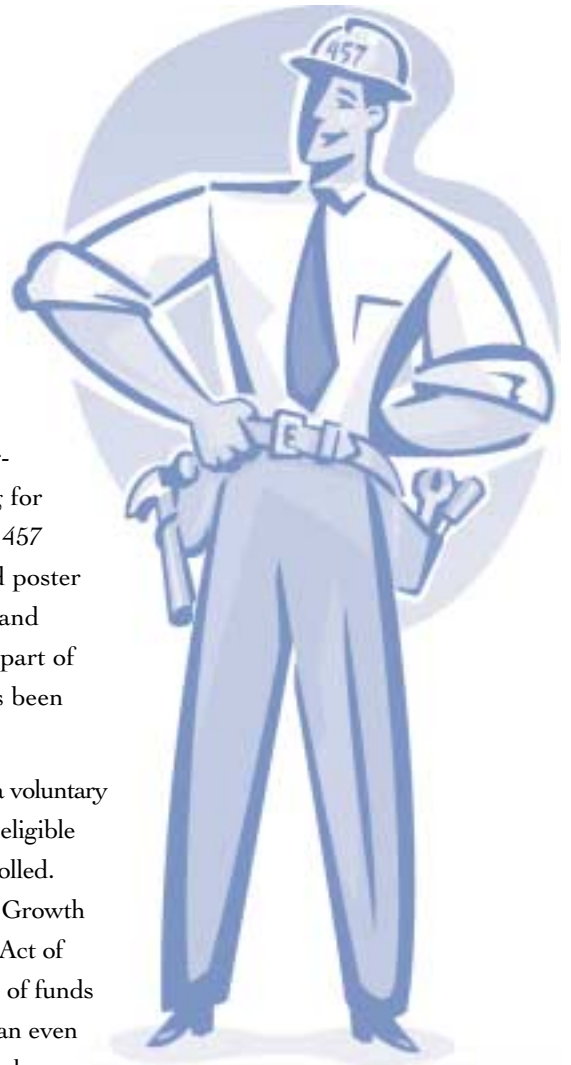
Participation has been excellent for a voluntary savings plan with 31 percent of all eligible state and university employees enrolled. With the passage of the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) and the addition of funds during 2001, the plan has become an even more attractive retirement savings plan for employees. As a result, this is an excellent opportunity to expand on the additional benefits of employee participation (more on page 2).

Income Tax Information

If you received a payment from your account during the 2001 tax year, you will receive a separate W-2 Form or 1099-R (for beneficiaries) from our recordkeeper, T. Rowe Price. Next year, the federal law requires a Form 1099-R to be sent for each distribution made during the 2002 tax year (more on page 3).

Want to Change Your Distribution?

As a participant receiving payments from your account in deferred compensation, you now have flexibility in distribution options due to the EGTRRA. Previously, all distribution choices were irrevocable. Now, you will be able to change your distribution method or amount with the Deferred Compensation Office twice a year during specified periods. Inside, you can find out more details on how and when you can change your distribution (more on page 3).



New Spokesman (cont. from page 1)

Materials

Enhancing participation rates through the use of educational material in promotional efforts is one of the Plan's major objectives. You will soon see more of Foreman 457 at your workplace. A series of posters have been designed to address three main issues to be promoted to nonparticipants—the diversity of investment options, the tax-deferred benefit of the savings Plan, and the power of compounding over time. In each of the poster series, a postcard has been designed to convey the message directly to the nonparticipant.

Meetings

The Deferred Compensation Office made presentations to over 6,800 employees last year. As part of this marketing campaign, representatives will be available to attend employee meetings to continue to promote the plan or discuss the plan changes as a result of the EGTRRA. We are working with the liaisons in each of the agencies, constitutional offices, universities, and boards and commissions to set up meeting dates and times.



Current Participants

Through the use of surveys, we have learned the best method of generating interest in our deferred compensation plan and increasing new enrollments is by word of mouth. Participants have by far been the single best source for coworkers to learn about the program and its advantages toward building for retirement savings. Your past efforts to help inform others of deferred compensation have been appreciated, and we count on your continued support.

Want to Change Your Distribution? (cont. from page 1)

The following summary highlights “good faith” interpretation of the changes to the distribution rules. Therefore, we reserve the right to make any necessary changes as further clarification or guidance becomes available from the IRS and the Department of Labor.

The process to change your distribution is simple. Just complete a distribution method election form, available from the Deferred Compensation Office, and return it in the month prior to when you want your new payment method to begin. You will be able to reelect a new distribution method semiannually (January-June, July-December). You may choose from several election options:

Stop All Payments

You can direct us to stop your distribution indefinitely. Contact the Deferred Compensation Office when you are ready to start receiving distributions. Keep in mind that IRS minimum required distributions still apply to retired participants that are age 70½.

Change the Amount

You have the option of increasing or decreasing the payment amount, or changing the frequency you chose for distribution. You could even indicate that you would like a partial lump sum and then you would like to maintain a monthly payment afterward. Most importantly, you can tailor the payments to your needs.

Rollover

You may request the direct rollover of your account to your new employer in a 401(k) plan or 403(b) plan (if your new employer’s plan allows for these types of rollovers). You may also roll your distribution into a Traditional IRA. Retirement assets rolled over to another plan or traditional IRA must assume the characteristics and provisions of those types of accounts. The potential 10 percent penalty for early withdrawal, before age 59½, applies to all other types of plans except other governmental 457 plans. In addition, these plans are subject to IRS minimum distribution requirements, the same as deferred compensation plans.

With any distribution option, new federal tax withholding procedures have become a requirement. Participants requesting any payment structure for less than a 10-year period, including lump-sum distributions, will have a mandatory 20 percent withheld as prepayment of federal taxes. You may, however, choose to withhold more.

Income Tax Information (cont. from page 1)

For federal income tax purposes, your deferred compensation, plus any earnings is taxable as ordinary income when it is distributed. Deferred compensation distributions are reported along with other earnings on line 7 of your income tax Form 1040.

Deferred compensation distributions are not subject to State of Illinois income tax. Report the distribution in the “federally taxed retirement and Social Security” subtraction section, line 5 of your Illinois return.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information
800.442.1300
217.782.7006
TDD/TTY: 800.526.0844
Internet: www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value
Information and Investment Changes: 888.457.5770
TDD/TTY: 800.521.0325
Internet Access: 800.541.3022
Internet: rps.troweprice.com

Fund Performance:

Liberty Acorn Fund: 800.922.6769
Ariel Fund: 800.292.7435
Fidelity Funds: 800.544.8888
Provident Investment Counsel: 800.618.7643
Stable Return Fund/PRIMCO: 800.228.7466
T. Rowe Price Funds: 800.922.9945
Vanguard Funds: 800.523.8066
Wells Fargo: 866.561.1153

Income and Price Information

4th Quarter 2001

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Liberty Acorn ⁵	Ariel ⁶	T. Rowe Price Int'l Stock ⁷	PIC Small Cap Growth
10/01/01	\$10.32	\$8.82	\$16.82	\$25.85	\$94.91	\$41.50	\$14.77	\$32.94	\$10.20	\$11.96
10/02/01	\$10.34	\$8.84	\$16.98	\$26.11	\$96.08	\$41.94	\$14.96	\$33.09	\$10.21	\$12.17
10/03/01	\$10.35	\$8.86	\$17.12	\$26.67	\$98.01	\$43.50	\$15.43	\$33.64	\$10.27	\$12.76
10/04/01	\$10.35	\$8.85	\$17.14	\$26.77	\$97.77	\$43.64	\$15.56	\$33.91	\$10.53	\$12.89
10/05/01	\$10.35	\$8.86	\$17.12	\$26.87	\$97.95	\$43.68	\$15.49	\$33.98	\$10.54	\$12.77
10/08/01	\$10.35	\$8.86	\$17.06	\$26.72	\$97.13	\$43.14	\$15.35	\$33.81	\$10.57	\$12.68
10/09/01	\$10.33	\$8.83	\$17.04	\$26.50	\$96.62	\$42.95	\$15.34	\$33.61	\$10.51	\$12.54
10/10/01	\$10.32	\$8.83	\$17.25	\$27.00	\$98.84	\$44.50	\$15.76	\$34.32	\$10.70	\$12.95
10/11/01	\$10.29	\$8.79	\$17.33	\$27.37	\$100.35	\$45.88	\$15.87	\$34.67	\$10.80	\$13.37
10/12/01	\$10.30	\$8.80	\$17.28	\$27.28	\$99.82	\$45.58	\$15.72	\$34.46	\$10.88	\$13.27
10/15/01	\$10.32	\$8.82	\$17.28	\$27.28	\$99.67	\$45.55	\$15.71	\$34.88	\$10.64	\$13.30
10/16/01	\$10.34	\$8.84	\$17.39	\$27.47	\$100.36	\$46.19	\$15.95	\$35.47	\$10.74	\$13.53
10/17/01	\$10.35	\$8.84	\$17.26	\$26.95	\$98.50	\$45.24	\$15.72	\$34.87	\$10.94	\$13.08
10/18/01	\$10.36	\$8.85	\$17.13	\$26.82	\$97.73	\$44.78	\$15.60	\$34.81	\$10.73	\$12.97
10/19/01	\$10.34	\$8.83	\$17.11	\$27.01	\$98.17	\$45.08	\$15.69	\$35.03	\$10.57	\$13.11
10/22/01	\$10.34	\$8.82	\$17.26	\$27.36	\$99.67	\$45.74	\$15.76	\$35.38	\$10.62	\$13.32
10/23/01	\$10.33	\$8.82	\$17.23	\$27.26	\$99.21	\$45.53	\$15.69	\$35.28	\$10.86	\$13.22
10/24/01	\$10.35	\$8.84	\$17.22	\$27.34	\$99.24	\$45.79	\$15.72	\$35.25	\$10.91	\$13.29
10/25/01	\$10.37	\$8.86	\$17.36	\$27.61	\$100.61	\$46.57	\$15.91	\$35.33	\$10.80	\$13.60
10/26/01	\$10.37	\$8.86	\$17.46	\$27.75	\$101.02	\$46.55	\$15.97	\$35.39	\$10.94	\$13.72
10/29/01	\$10.38	\$8.88	\$17.26	\$27.16	\$98.62	\$44.79	\$15.76	\$34.89	\$10.85	\$13.38
10/30/01	\$10.39	\$8.90	\$17.08	\$26.73	\$96.93	\$44.03	\$15.56	\$34.54	\$10.58	\$13.01
10/31/01	\$10.45	\$8.96	\$17.11	\$26.71	\$96.94	\$44.02	\$15.68	\$34.72	\$10.65	\$13.23
11/01/01	\$10.46	\$8.98	\$17.33	\$27.25	\$99.18	\$45.22	\$15.83	\$35.24	\$10.80	\$13.51
11/02/01	\$10.40	\$8.92	\$17.31	\$27.27	\$99.47	\$45.52	\$15.84	\$35.28	\$10.86	\$13.51
11/05/01	\$10.43	\$8.95	\$17.43	\$27.58	\$100.90	\$46.78	\$15.94	\$35.56	\$11.02	\$13.76
11/06/01	\$10.45	\$8.96	\$17.55	\$27.89	\$102.37	\$47.41	\$16.15	\$36.03	\$11.06	\$13.92
11/07/01	\$10.48	\$9.01	\$17.59	\$27.84	\$102.12	\$47.25	\$16.21	\$35.97	\$11.07	\$13.92
11/08/01	\$10.46	\$8.97	\$17.61	\$27.77	\$102.38	\$47.30	\$16.25	\$35.76	\$11.19	\$13.74
11/09/01	\$10.44	\$8.95	\$17.62	\$27.87	\$102.54	\$47.38	\$16.28	\$35.14	\$11.09	\$13.61
11/12/01	\$10.44	\$8.95	\$17.58	\$27.85	\$102.35	\$47.42	\$16.35	\$35.31	\$10.92	\$13.75
11/13/01	\$10.42	\$8.92	\$17.76	\$28.20	\$104.27	\$48.88	\$16.69	\$35.69	\$11.08	\$14.11
11/14/01	\$10.37	\$8.87	\$17.73	\$28.26	\$104.49	\$49.24	\$16.78	\$36.15	\$11.10	\$14.14
11/15/01	\$10.28	\$8.78	\$17.66	\$28.33	\$104.59	\$49.07	\$16.64	\$36.26	\$11.17	\$14.12
11/16/01	\$10.22	\$8.73	\$17.61	\$28.29	\$104.27	\$48.73	\$16.65	\$36.38	\$11.29	\$14.14
11/19/01	\$10.27	\$8.78	\$17.75	\$28.51	\$105.40	\$49.43	\$16.82	\$36.57	\$11.29	\$14.42
11/20/01	\$10.24	\$8.75	\$17.69	\$28.34	\$104.64	\$48.54	\$16.76	\$36.36	\$11.17	\$14.19
11/21/01	\$10.20	\$8.71	\$17.61	\$28.19	\$104.12	\$48.44	\$16.66	\$36.26	\$11.10	\$14.15
11/23/01	\$10.18	\$8.69	\$17.73	\$28.44	\$105.35	\$49.04	\$16.82	\$36.50	\$11.14	\$14.34
11/26/01	\$10.17	\$8.69	\$17.78	\$28.64	\$105.99	\$49.63	\$16.91	\$36.51	\$11.26	\$14.58
11/27/01	\$10.19	\$8.71	\$17.74	\$28.48	\$105.27	\$49.27	\$16.88	\$36.25	\$11.14	\$14.61
11/28/01	\$10.19	\$8.71	\$17.56	\$28.10	\$103.37	\$48.37	\$16.66	\$35.95	\$11.02	\$14.25
11/29/01	\$10.25	\$8.77	\$17.69	\$28.36	\$104.45	\$49.09	\$16.87	\$36.56	\$10.99	\$14.57
11/30/01	\$10.26	\$8.79	\$17.70	\$28.34	\$104.38	\$49.19	\$16.89	\$36.44	\$11.10	\$14.53
12/03/01	\$10.26	\$8.79	\$17.64	\$28.25	\$103.50	\$48.61	\$16.77	\$36.20	\$10.97	\$14.38
12/04/01	\$10.29	\$8.81	\$17.75	\$28.52	\$104.87	\$49.61	\$17.08	\$36.70	\$11.11	\$14.78
12/05/01	\$10.19	\$8.72	\$17.94	\$29.00	\$107.24	\$51.55	\$17.41	\$37.26	\$11.46	\$15.42
12/06/01	\$10.15	\$8.69	\$17.89	\$28.95	\$106.95	\$51.42	\$17.62	\$37.43	\$11.53	\$15.48
12/07/01	\$10.09	\$8.64	\$17.76	\$28.72	\$106.15	\$51.07	\$17.52	\$37.37	\$11.42	\$15.31
12/10/01	\$10.10	\$8.64	\$17.63	\$28.41	\$104.46	\$50.14	\$17.33	\$36.48	\$11.18	\$15.07
12/11/01	\$10.12	\$8.66	\$17.63	\$28.41	\$104.17	\$50.31	\$17.27	\$36.51	\$11.21	\$15.17
12/12/01	\$10.16	\$8.70	\$17.62	\$28.41	\$104.22	\$50.38	\$17.22	\$36.41	\$10.89	\$15.17
12/13/01	\$10.12	\$8.66	\$17.45	\$28.09	\$102.59	\$49.38	\$17.08	\$36.24	\$10.68	\$14.88
12/14/01	\$10.08	\$8.63	\$17.25	\$28.24	\$102.94	\$49.81	\$17.12	\$36.57	\$10.66	\$14.92
12/17/01	\$10.07	\$8.60	\$17.31	\$28.53	\$103.98	\$50.31	\$17.31	\$37.10	\$10.79	\$15.08
12/18/01	\$10.09	\$8.64	\$17.44	\$28.72	\$104.76	\$50.19	\$17.47	\$37.15	\$10.83	\$15.16
12/19/01	\$10.13	\$8.68	\$17.55	\$28.81	\$105.38	\$50.24	\$17.52	\$37.06	\$10.79	\$15.01
12/20/01	\$10.13	\$8.66	\$17.50	\$28.70	\$104.51	\$49.33	\$17.37	\$36.71	\$10.69	\$14.64
12/21/01	\$10.12	\$8.66	\$17.51	\$28.71	\$104.97	\$49.65	\$17.58	\$36.87	\$10.71	\$14.89
12/24/01	\$10.10	\$8.63	\$17.54	\$28.75	\$104.95	\$49.51	\$17.61	\$37.23	\$10.64	\$14.90
12/26/01	\$10.08	\$8.62	\$17.58	\$28.87	\$104.98	\$49.82	\$17.78	\$37.47	\$10.65	\$15.10
12/27/01	\$10.11	\$8.65	\$17.67	\$29.02	\$105.72	\$50.11	\$17.91	\$37.85	\$10.86	\$15.24
12/28/01	\$10.10	\$8.64	\$17.72	\$29.11	\$106.07	\$50.41	\$17.98	\$37.90	\$10.93	\$15.36
12/31/01	\$10.14	\$8.68	\$17.67	\$28.88	\$104.89	\$49.67	\$17.88	\$37.72	\$10.99	\$15.16

¹New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 31 days were credited for October, 32 days were credited for November, and 30 days were credited for December.

²Puritan declared a distribution of \$.19 payable December 14, 2001, to shareholders of record on December 13, 2001, using a share value of \$17.25.

³Fidelity declared a distribution of \$.09 payable December 21, 2001, to shareholders of record on December 20, 2001, using a share value of \$28.71.

⁴Vanguard Institutional Index Fund declared a distribution of \$.40 payable December 26, 2001, to shareholders of record on December 24, 2001, using a share value of \$104.98.

⁵Liberty Acorn Fund declared a distribution of \$.09 payable December 7, 2001, to shareholders of record on December 6, 2001, using a share value of \$17.52.

⁶Ariel Fund declared a distribution of \$.64515 payable December 10, 2001, to shareholders of record on December 7, 2001, using a share value of \$36.48.

⁷T. Rowe Price Int'l Stock Fund declared a distribution of \$.33 payable December 12, 2001, to shareholders of record on December 11, 2001, using a share value of \$10.89.